Sidang Akhbar

Prestasi Ekonomi Suku Pertama Tahun 2018

Gabenor
Bank Negara Malaysia

17 Mei 2018

Sidang akhbar akan meliputi:

Prestasi ekonomi pada suku pertama tahun 2018

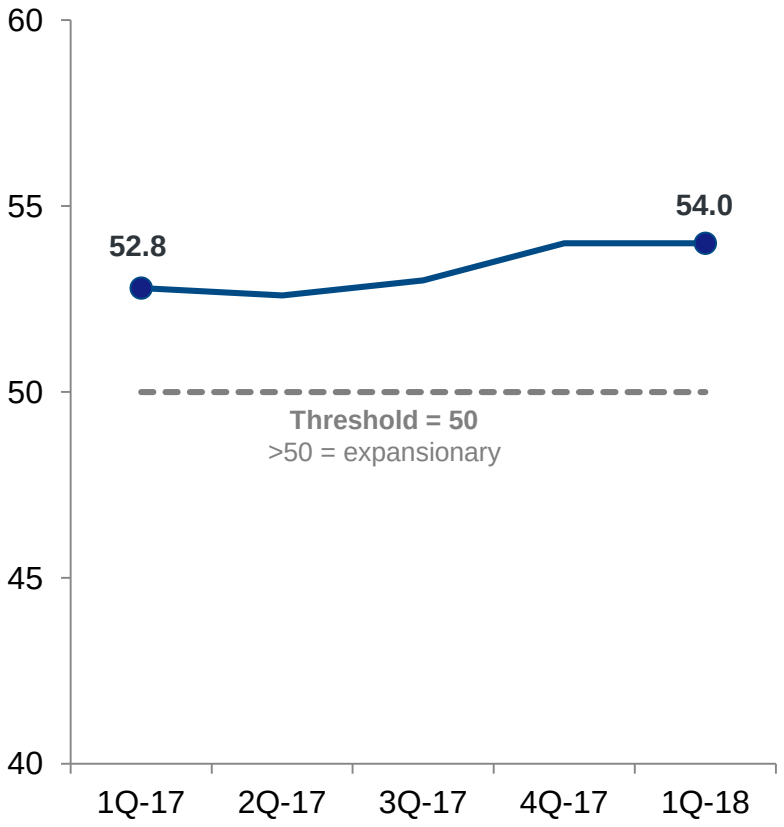
Perkembangan monetari dan kewangan

Isu khas dan inisiatif dasar Bank Negara Malaysia

Key Economic Themes in 1Q 2018

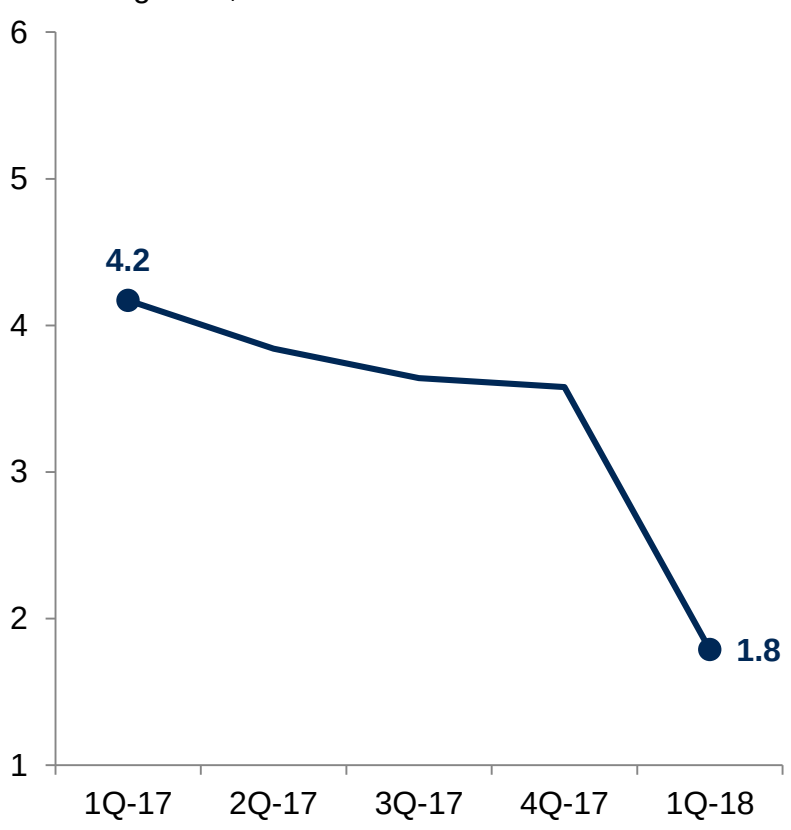
Continued strength in global economic activity

Global Manufacturing PMI Index



Lower headline inflation

Malaysia's Headline Inflation

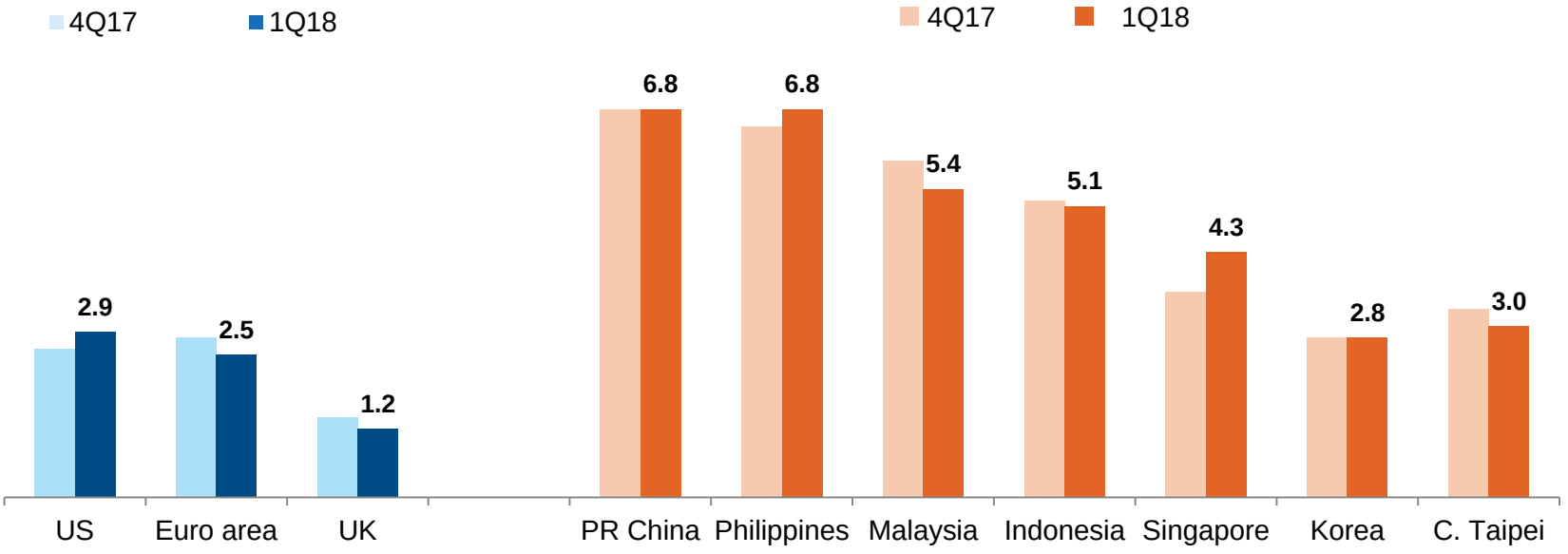


Source: Department of Statistics, Malaysia, JP Morgan Global PMI (Manufacturing)

Global economy expanded further in 1Q 2018

Advanced Economies

GDP, Annual change (%)



Regional Economies

GDP, Annual change (%)

Source: National Authorities, Haver

Growth supported by consumption and investment

- Labour market improvements supported private consumption
- Continued investment amid solid demand

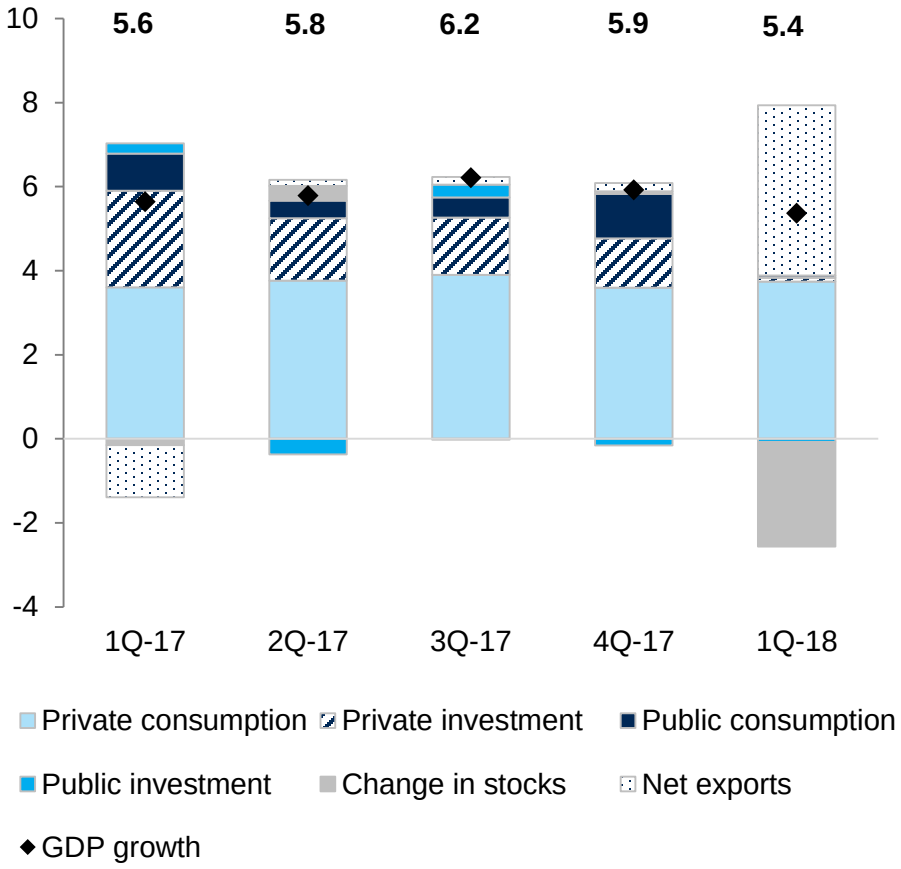
Robust trade performance and resilient domestic activity

- Domestic demand supported by policy measures and higher infrastructure spending
- Trade driven by continued strength in external demand conditions

The Malaysian economy grew by 5.4% in 1Q 2018

On the demand side, growth was underpinned by private sector spending and net exports

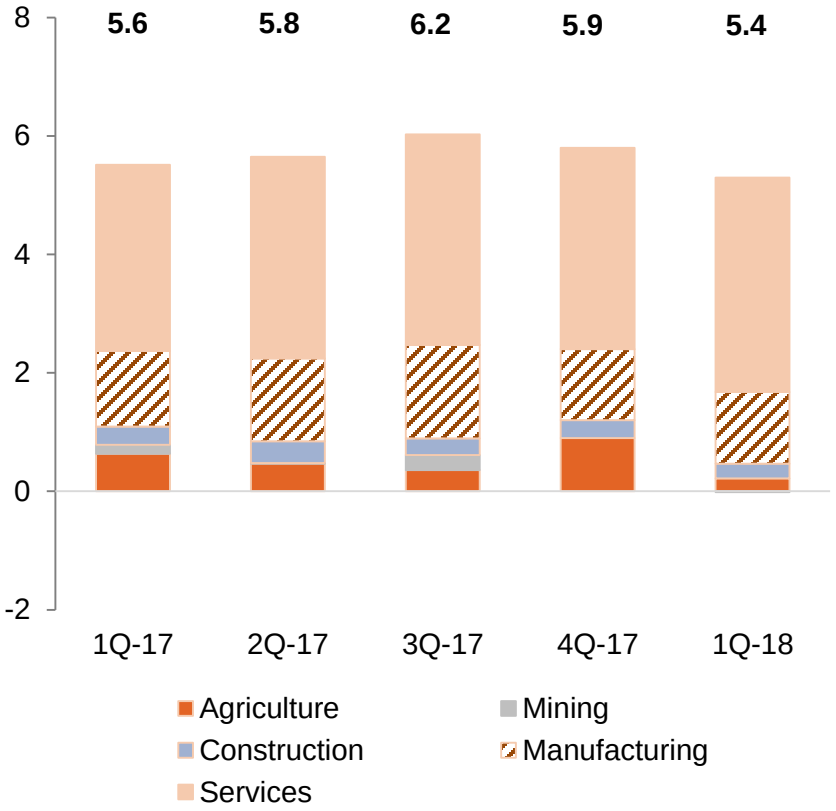
Annual change, % /
Ppt contribution to GDP



Source: Department of Statistics, Malaysia

On the supply side, services and manufacturing sectors remained the key drivers of growth

Annual change, % /
Ppt contribution to GDP[1]



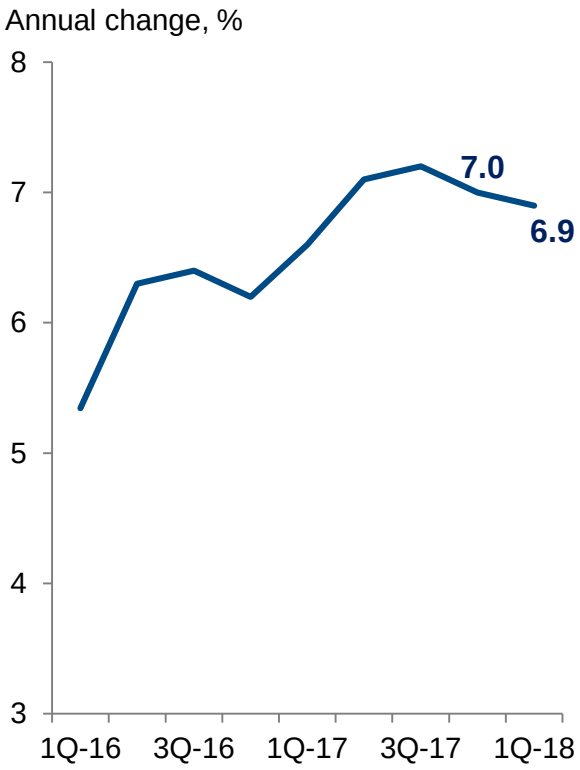
[1] Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

Private consumption growth sustained at 6.9%, supported by continued increase in wage and employment

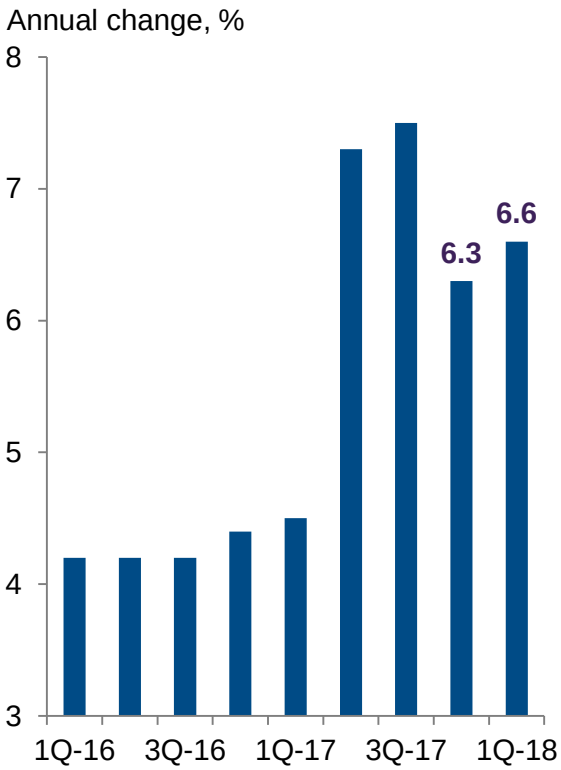
Household spending continued to expand…

Real Private Consumption Growth



… supported by continued private sector wage growth

Private Sector Wage Growth



Going forward, private consumption is expected to be sustained by:

- Strong income growth
- Sustained employment
- Continued support from Government measures

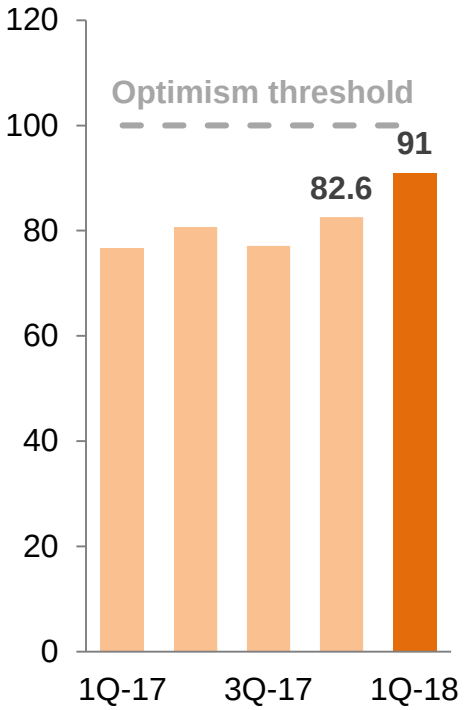
Source: Department of Statistics, Malaysia

However, low-income segments continue to face considerable challenges

Consumer sentiments remain poor

MIER Consumer Sentiment Index

Points

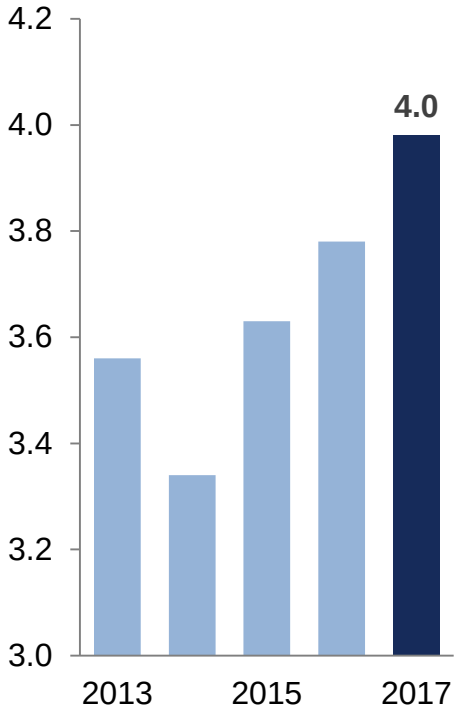


Source: MIER

Prices of food and beverages are rising at a faster rate...

Food and beverages CPI

Annual change, %

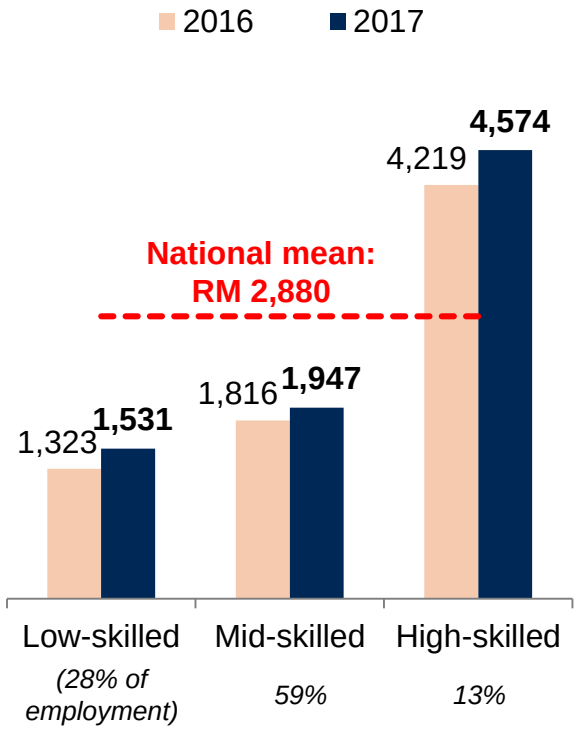


Source: Department of Statistics

…while wages of low- and mid-skilled workers remain low

Mean monthly wage*

RM per month



* Malaysia's citizens only

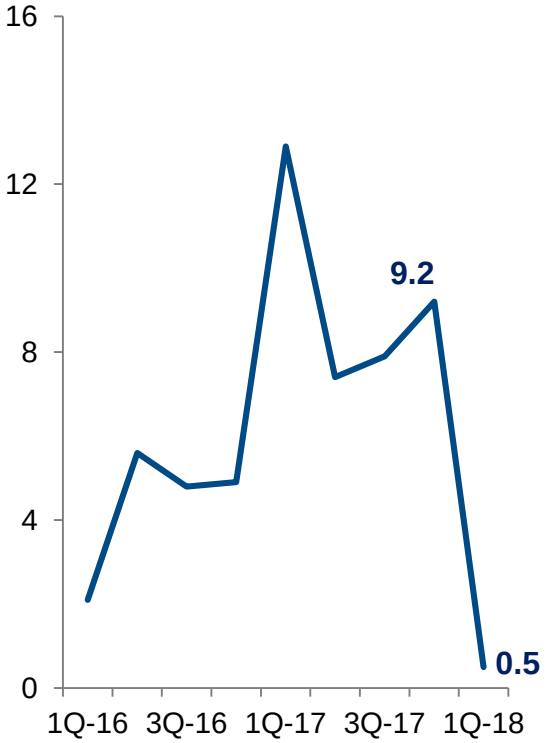
Source: Department of Statistics and staff estimates

Private investment growth moderated to 0.5% due to lower growth of structures and machinery and equipment investments

Private investment moderated

Real Private Investment Growth

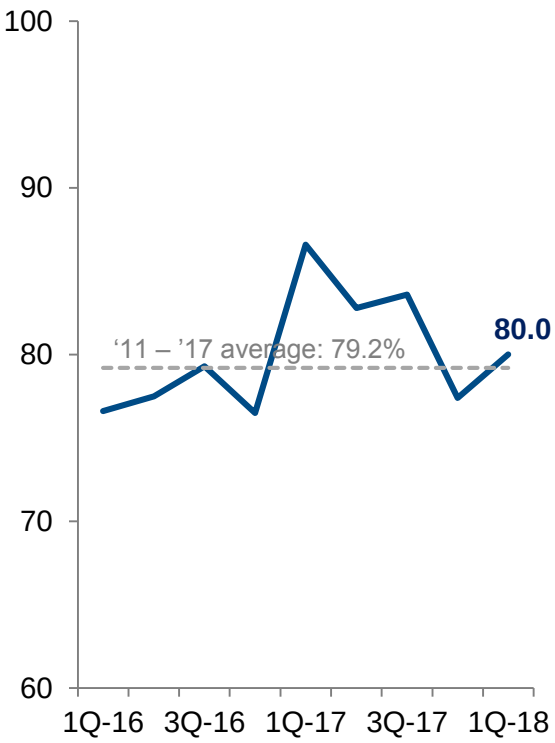
Annual change, %



However, capacity utilisation remained elevated

MIER Capacity Utilisation Rate

%



Going forward, investment activity to be supported by:

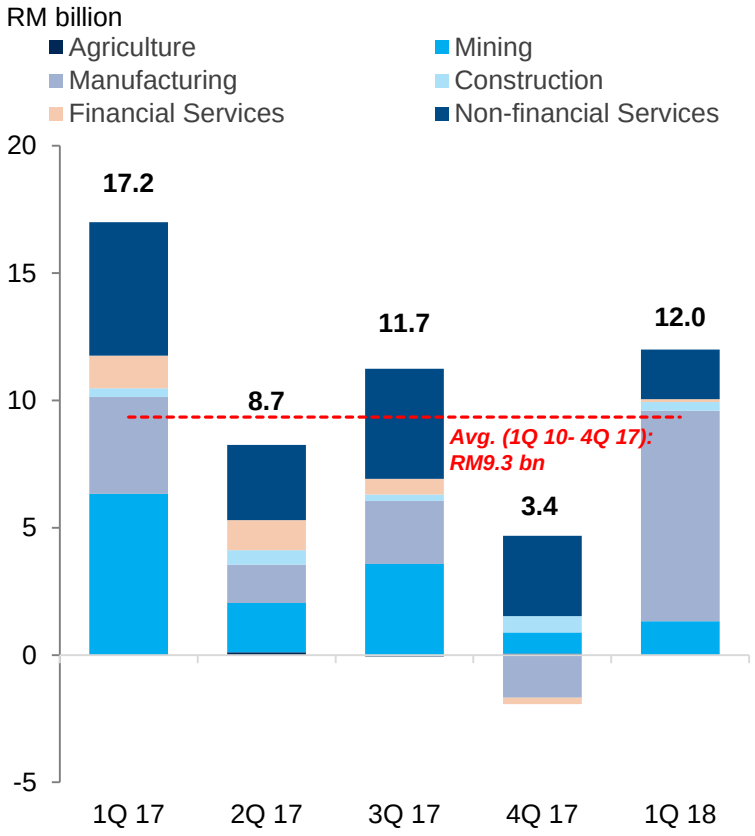
- Implementation of new and ongoing projects
- Support from external and domestic demand conditions
- Higher capacity utilisation, increasing the need for firms to invest to meet strong global demand

Source: Department of Statistics, Malaysia, MIER

FDI flows remain broad-based, as Malaysia remains an attractive profit centre for foreign investments

1Q 2018 FDI inflows channeled mainly into the manufacturing sector

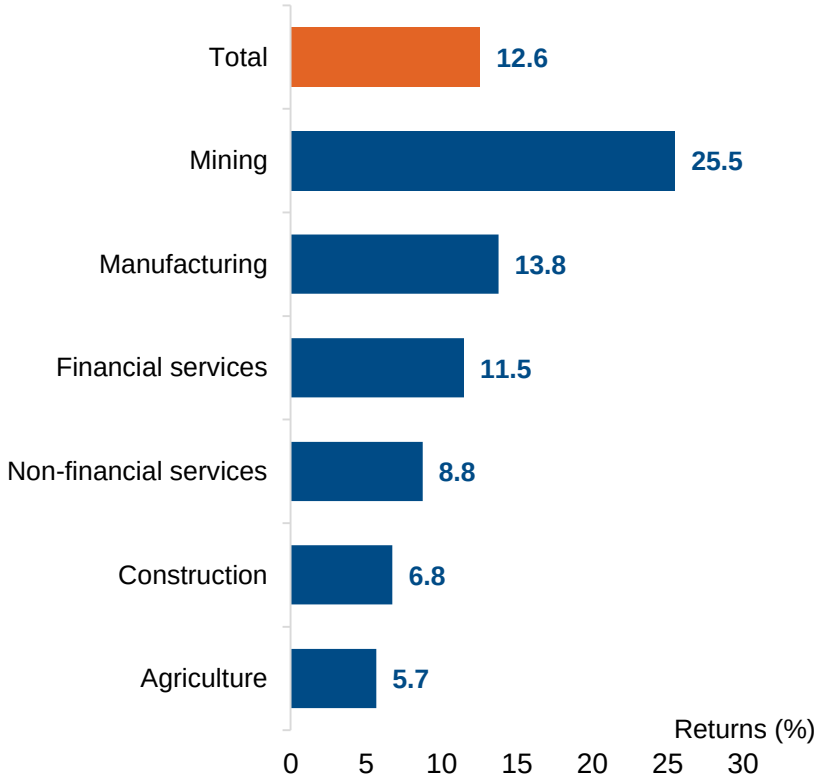
Foreign Direct Investment in Malaysia, 1Q 2017 – 1Q 2018



Note: Figures may not add up due to netting off and rounding
Sources: Department of Statistics Malaysia, Bank Negara Malaysia

FDI firms continued to record sizeable profits

FDI Returns by Sector, Average 2010-2017



Source: Department of Statistics Malaysia, Bank Negara Malaysia, Staff calculations

Exports continued to expand

Continued expansion in gross exports, driven by manufactured goods

External Trade (Annual change, %)	Share, % (2017)	2017		2018
		3Q	4Q	1Q
Gross Exports	**100**	**22.1**	**12.4**	**5.8**
Manufacturing	82	23.7	14.2	8.2
E&E	*37*	*21.7*	*14.7*	*11.8*
Non-E&E	*45*	*25.4*	*13.7*	*5.5*
Commodities	17	12.6	4.3	-4.8
Gross imports	**100**	**19.8**	**14.4**	**-0.8**
Intermediate	*57*	*20.9*	*9.0*	*-10.5*
Capital	*14*	*0.1*	*17.1*	*-13.0*
Consumption	*9*	*14.9*	*4.7*	*2.3*
Trade balance (RM bil)	-	**26.7**	**27.7**	**33.4**

Source: Department of Statistics, Malaysia

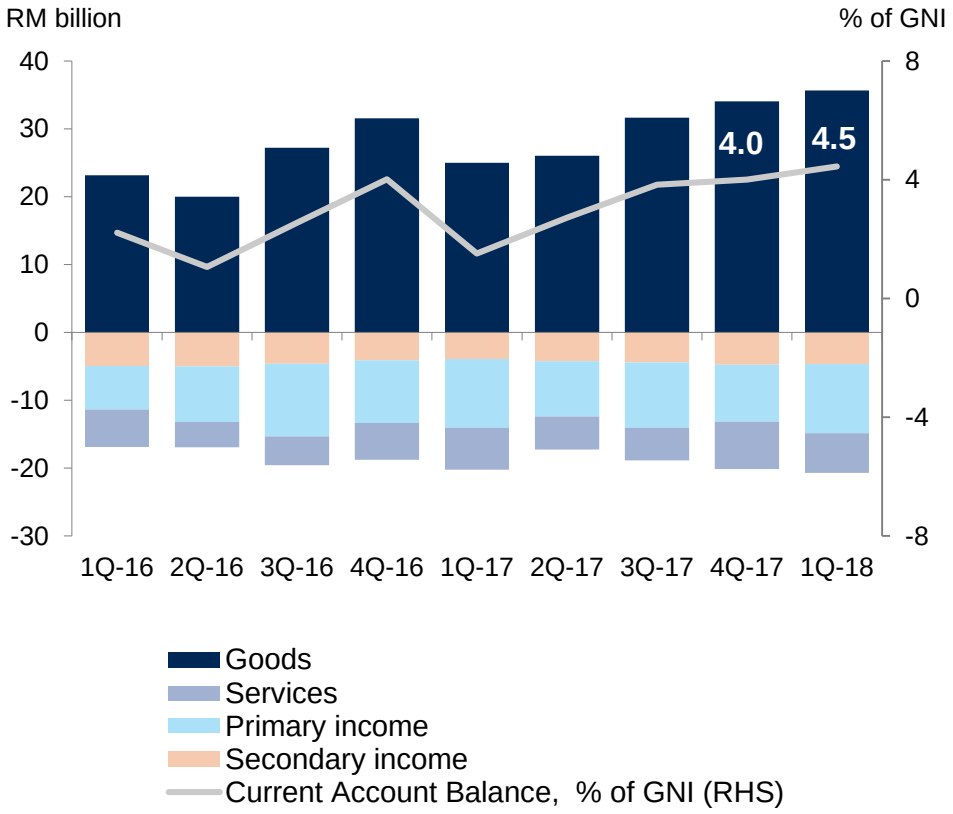
Going forward, export growth will moderate, but remain above average trend

- Sustained demand from key trading partners
- Continued expansion in global tech cycle
- Increased domestic production capacity

Higher current account surplus

Current account surplus widened due mainly to higher goods surplus and smaller services deficit

Current account balance



Source: Department of Statistics, Malaysia

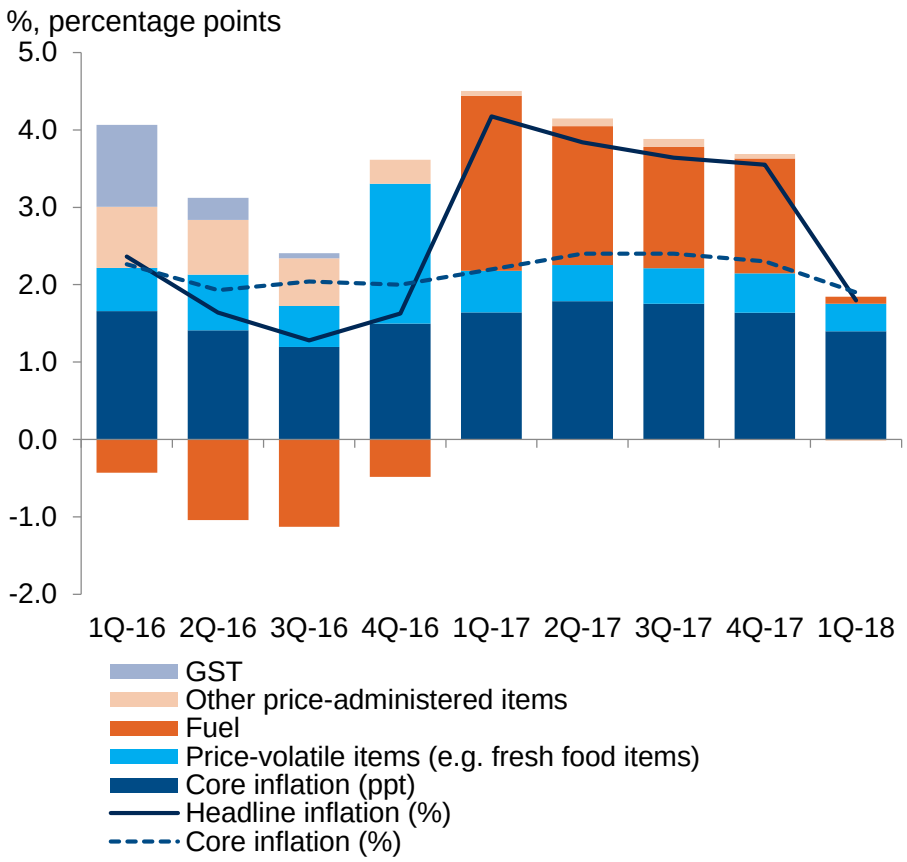
Current account to remain in surplus going forward

- **Higher goods surplus**
  - Continued strength in global demand
- **Services and income accounts to remain in deficit**
  - Continued reliance on foreign service providers
  - Sizeable outward remittance by foreign workers

Both headline and core inflation declined in 1Q 2018

Headline inflation declined in 1Q 2018, reflecting a smaller contribution of domestic fuel prices

Contribution to Headline Inflation by Components



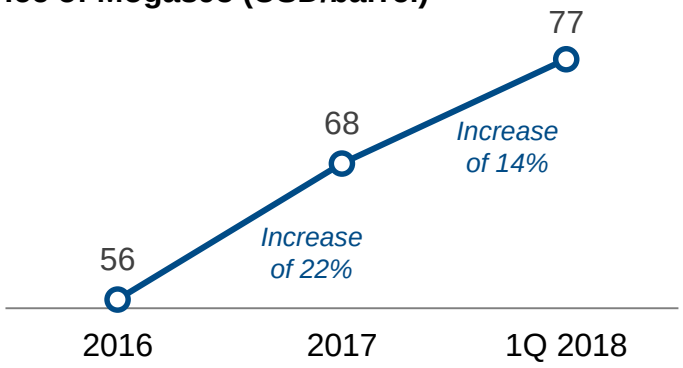
Note: Core inflation excludes the estimated direct impact of GST

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

In 2018, headline inflation is expected to moderate given expectations for smaller contribution of global cost factors

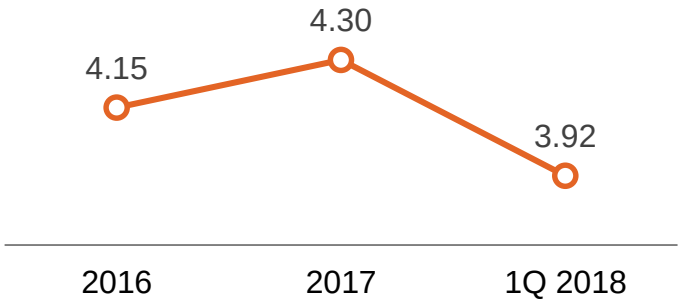
1 **The degree of increase in global oil prices is smaller relative to the increase in 2017**

Price of Mogas95 (USD/barrel)



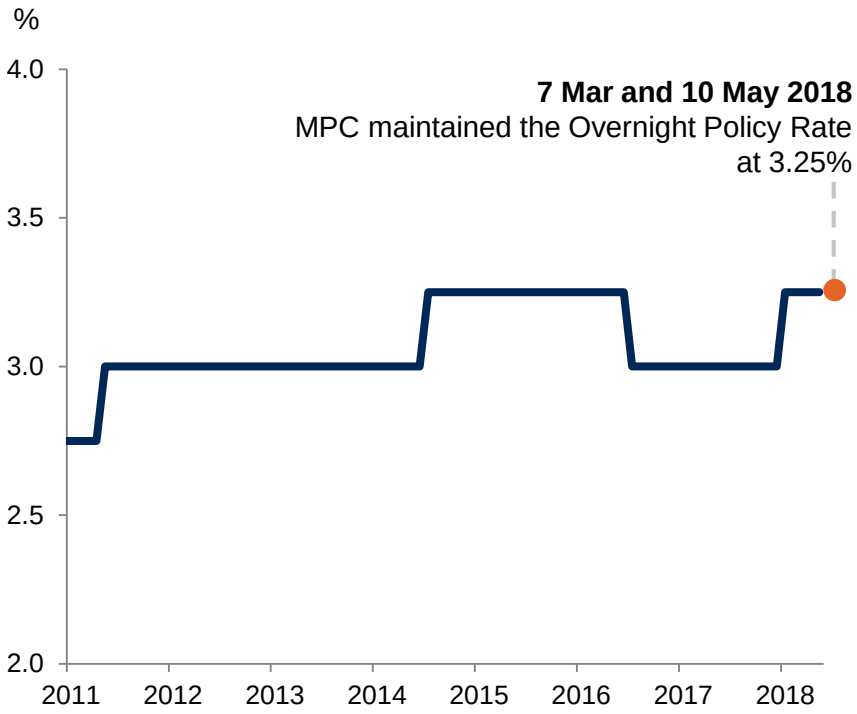
2 **Stronger ringgit exchange rate**

Movement of Ringgit against USD



Monetary policy to ensure sustained growth amid expected moderation in inflation

Overnight Policy Rate



The MPC maintained the policy rate in March and May

– The degree of monetary accommodativeness is consistent with the policy stance to ensure a steady growth path amid lower inflation

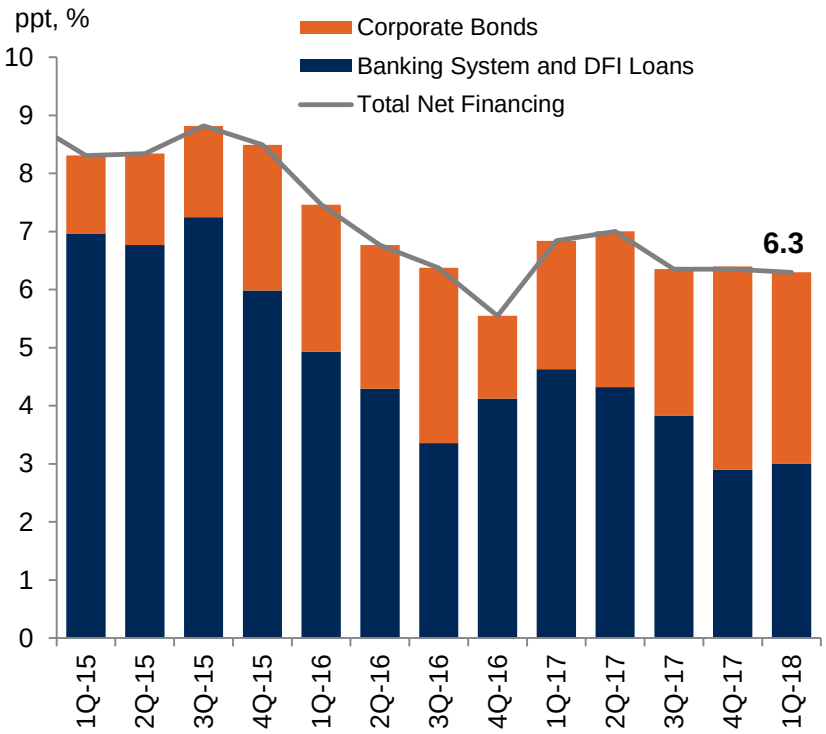
– The earlier increase in January reflects a normalisation, and not a tightening of monetary conditions

Source: Bank Negara Malaysia

Financing to the private sector was sustained during the quarter

Growth of net financing remained supportive of economic activity

Contribution to Net Financing Growth*

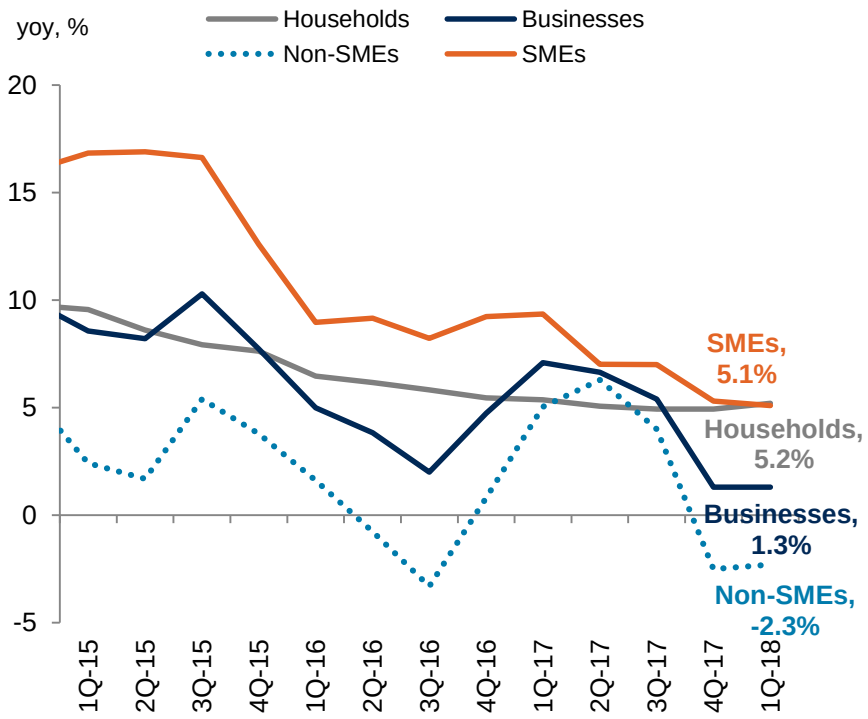


*Net financing comprises outstanding banking system and DFIs loans; and outstanding corporate bonds

Source: Bank Negara Malaysia

Steady growth of outstanding loans supported by loans to businesses and households

Outstanding Banking System and DFIs Loan Growth by Borrowers

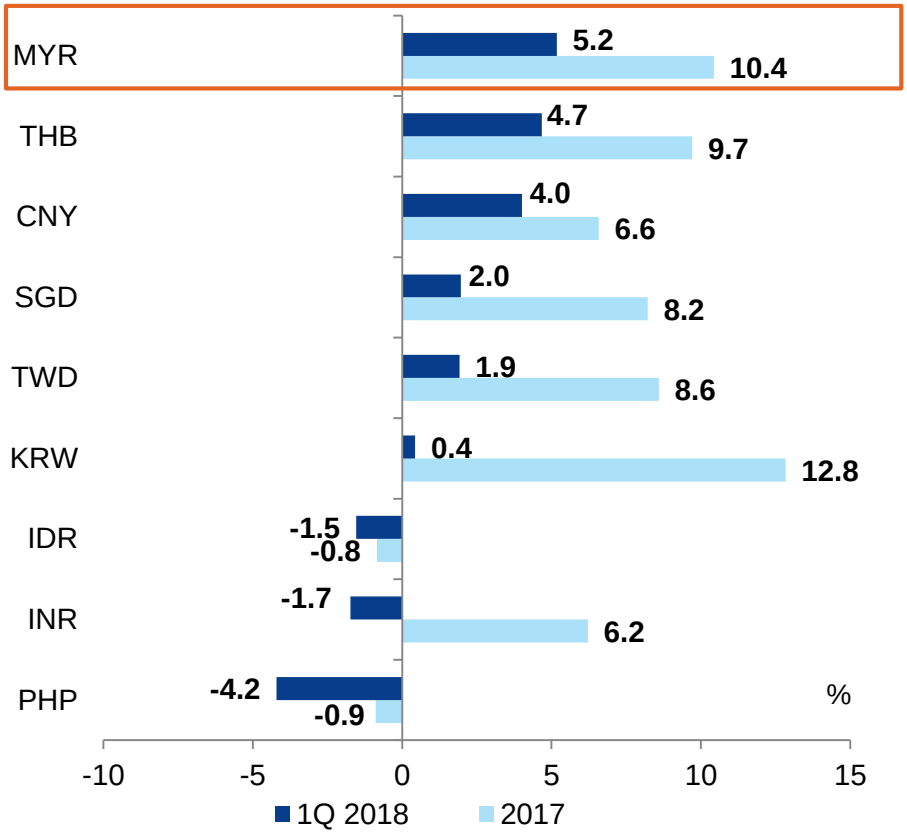


Source: Bank Negara Malaysia

The ringgit continued to strengthen in the first quarter of 2018

The ringgit outperformed regional currencies in 1Q 2018, extending gains in 2017

Performance of Selected Regional Currencies Against USD



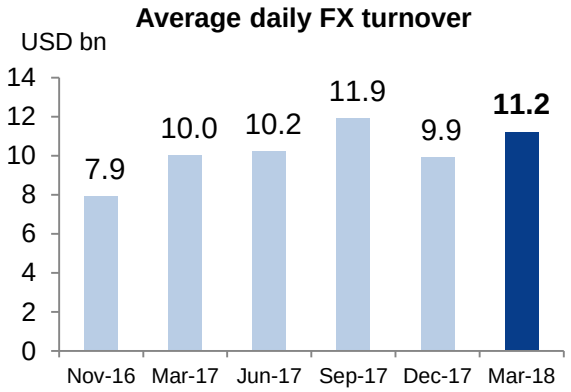
Source: Bank Negara Malaysia

There are, however, risks that may limit the strength of the ringgit going forward

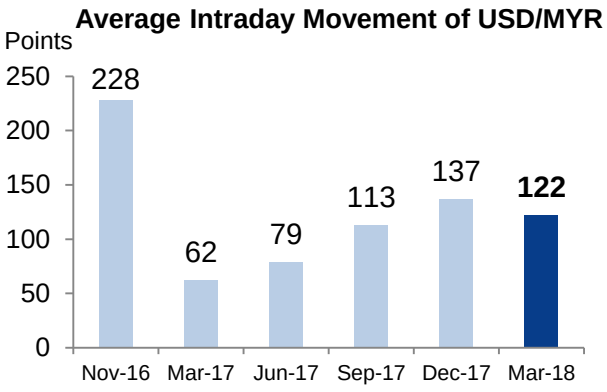
- **Revival of USD strength due to expectations of a faster pace of US monetary policy normalisation given**
  - Positive economic data; and
  - Rising US long-term yields
- **Adverse global geopolitical developments**
- **Escalating US-China trade tensions**

A more effective FX intermediation onshore promotes market stability

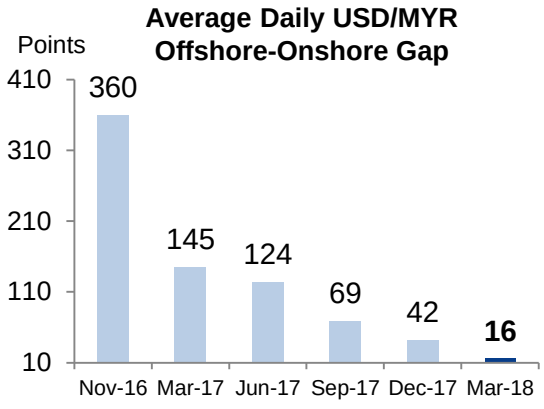
Higher onshore volume better facilitated FX needs of the market



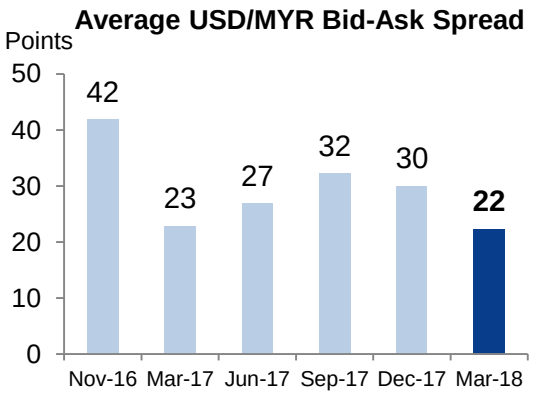
Stable FX rates promote efficient price discovery



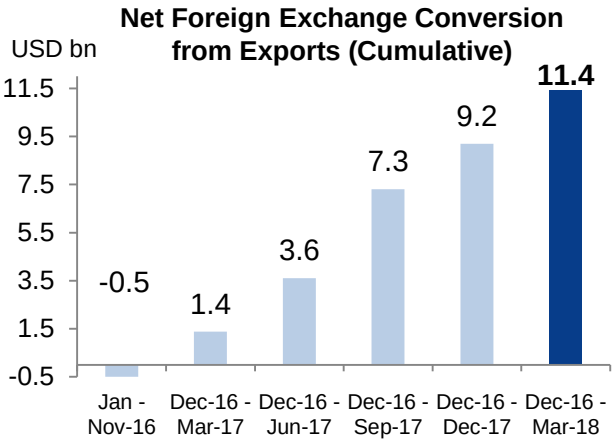
Impact of offshore rates to onshore has remained lower



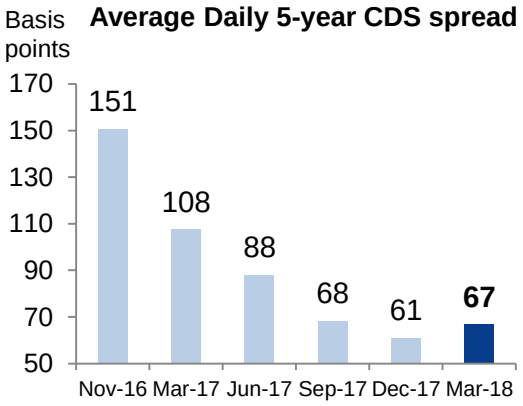
FX transaction cost remains stable for market participants



Greater balance of foreign currency demand and supply



Sustained lower credit spread lowered cost of borrowing

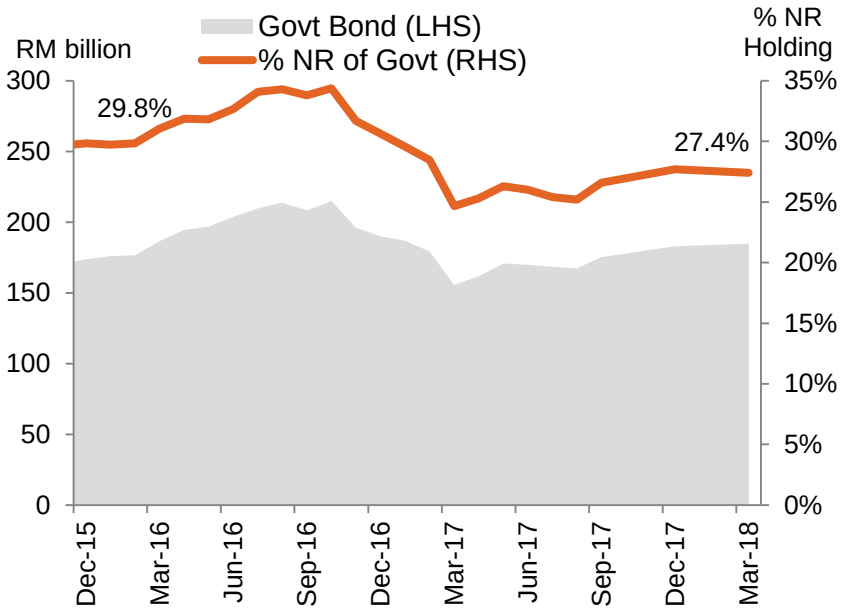


Note: Volatility refers to the difference between USD/MYR interbank intraday highest and lowest rate.
Offshore rate refers to the NDF 1-month rate while onshore rate refers to the spot rate.
Source: Bank Negara Malaysia, Bloomberg

Non-resident holdings of Malaysian government bonds recorded net inflows in 1Q 2018 in anticipation of higher returns

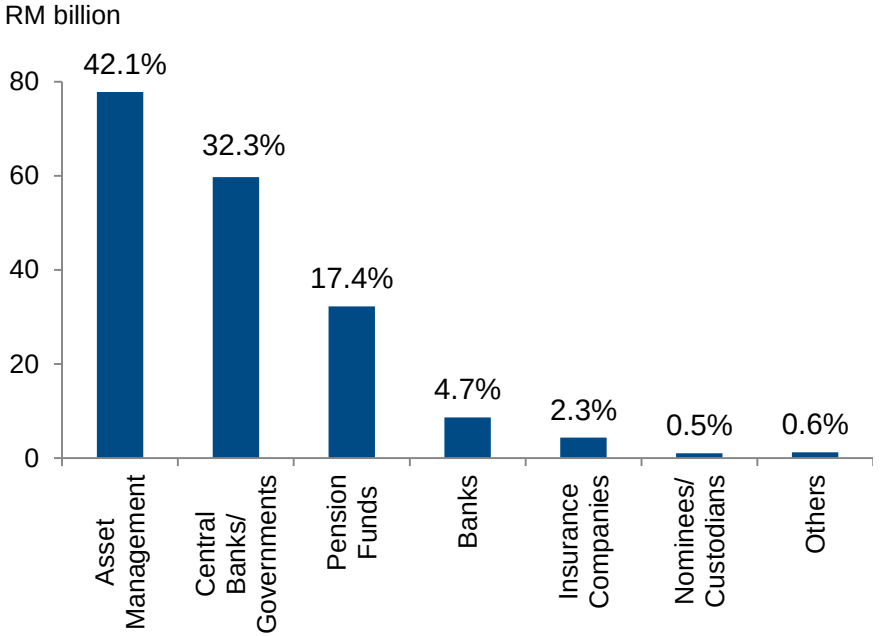
Non-resident holdings of Malaysian Government bonds stood at 27.4% as at end-Mar 2018

Non-resident Holdings of Malaysian Government Bonds



Majority of non-resident holdings are by asset managers, central bank / government and pension funds

Distribution of Non-resident Holdings of Government Bonds as at end-Mar 2018



Source: Bank Negara Malaysia

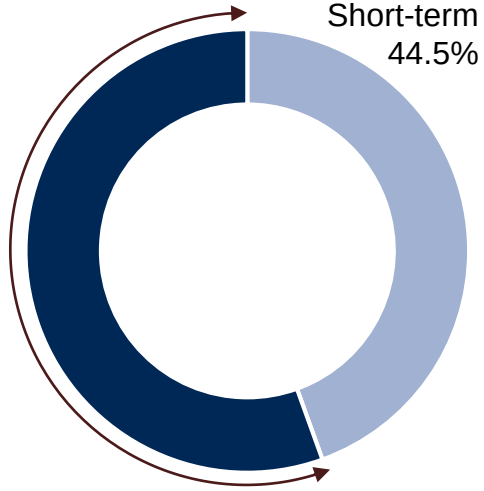
Note:

- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).
- 'Others' include individuals, non-financial corporations and unidentified sectors

External debt remains manageable and will continue to be monitored

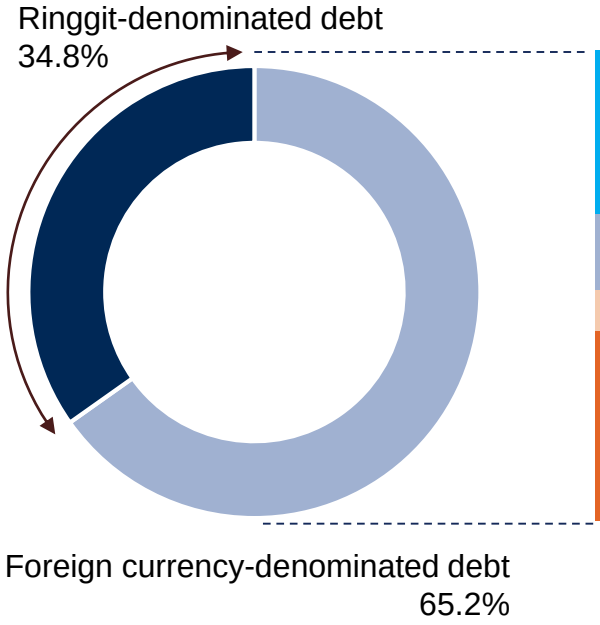
Limited rollover risk as more than half is skewed towards medium- to long-term tenures

Breakdown of Malaysia's External Debt by Maturity in 1Q 2018 (% share)



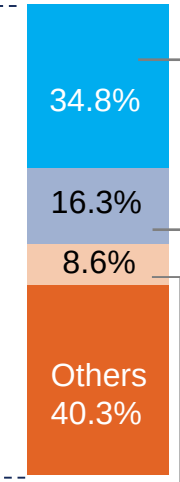
More than a third is denominated in ringgit and not subject to valuation changes

Breakdown of Malaysia's External Debt by Currency in 1Q 2018 (% share)



FX debt are mostly subjected to either prudential safeguards or flexible terms

Breakdown of of Malaysia's foreign-currency denominated external debt in 1Q 2018 (% share)



Interbank borrowing (28.4%) and non-resident deposits (6.5%)

- *Prudent liquidity management including limits on funding and maturity mismatches*

Intercompany loans

- *Flexible/concessionary terms*

Trade credits

- *Backed by export earnings*

Note: Numbers may not add up due to rounding

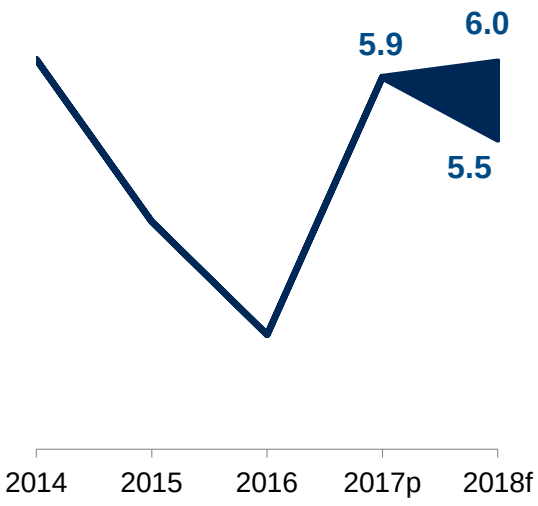
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Malaysian economy to remain favourable in 2018

Malaysia's GDP expected to remain favourable

Real GDP Growth

Annual change, %

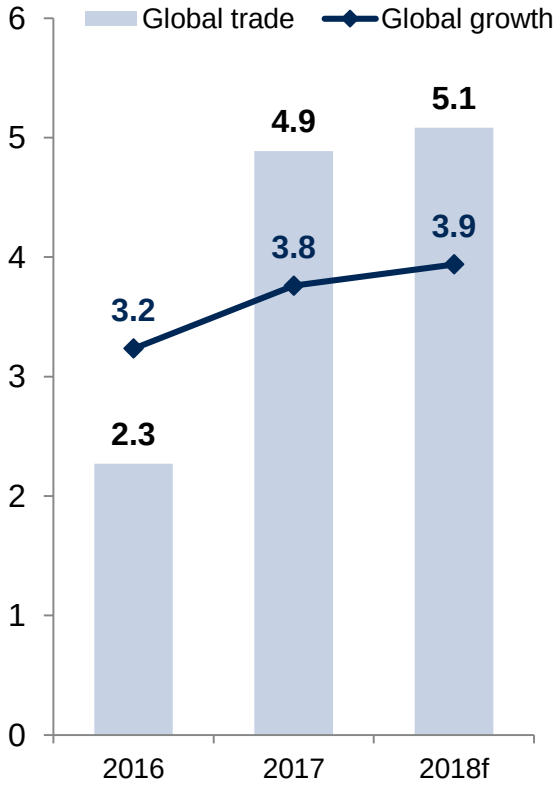


Source: Department of Statistics Malaysia and staff estimates

Global growth and trade to expand at a faster pace

Global Growth and Global Trade

Annual change, %

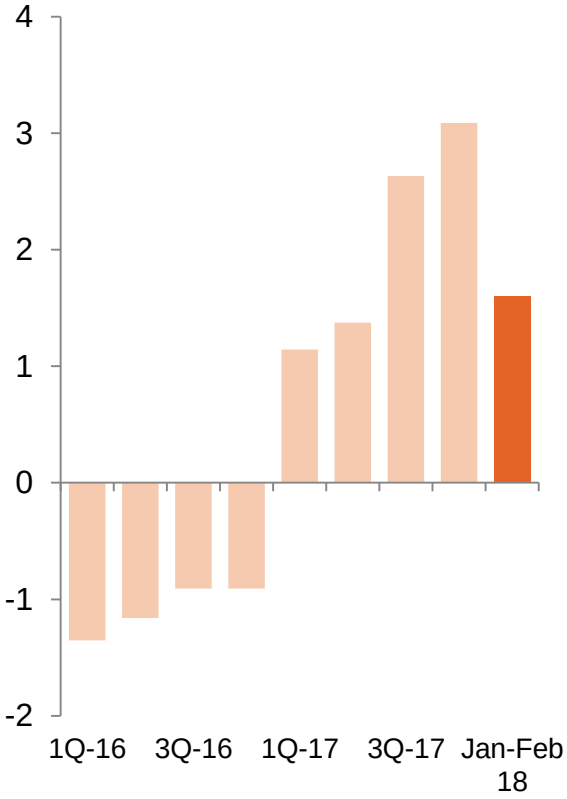


Source: IMF WEO (April 2018 edition)

Leading indicators suggest continued expansion

Composite Leading Index

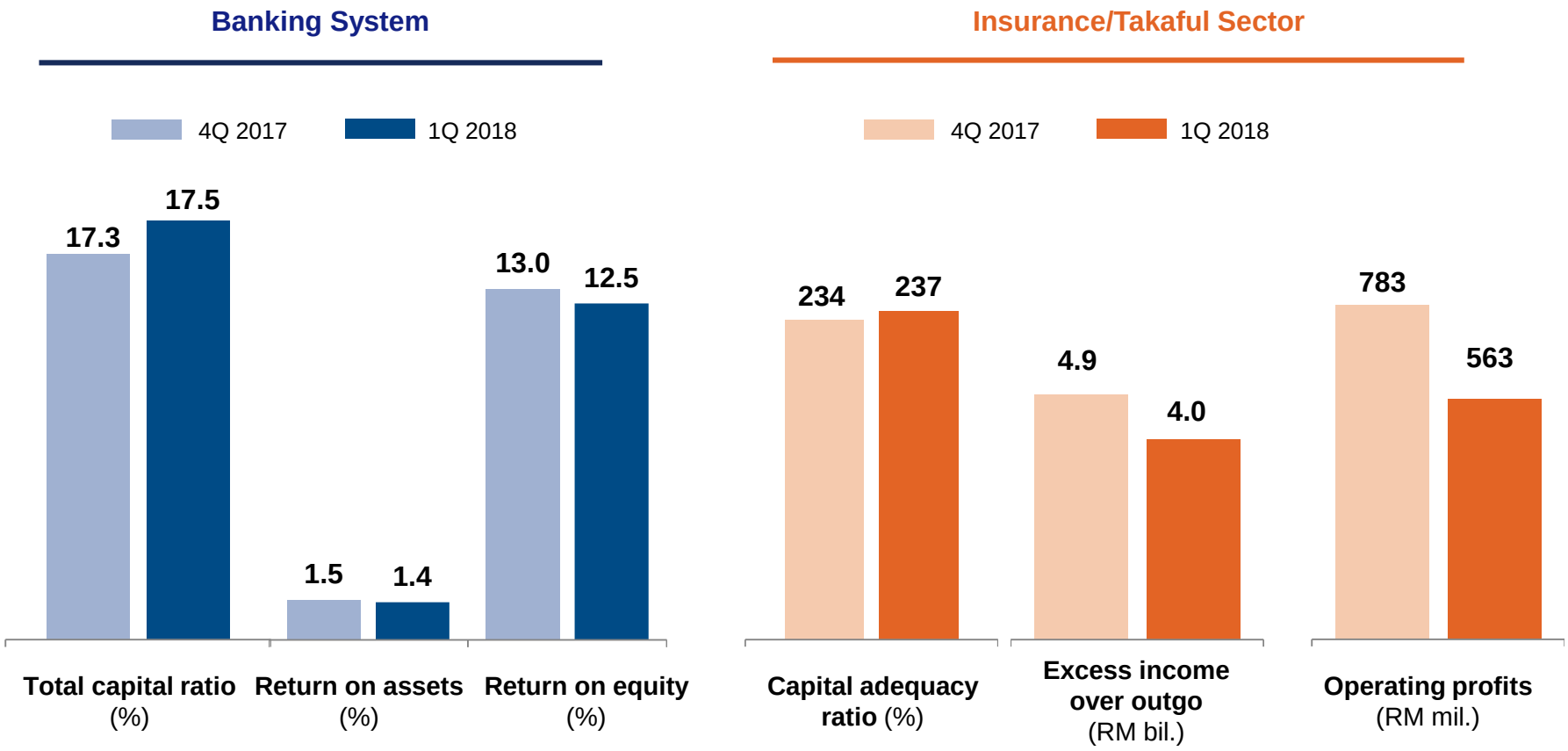
Annual change, %



Source: Department of Statistics Malaysia

Sustained resilience of financial institutions continued to support domestic financial stability

Financial institutions remained well-capitalised, supported by strong profitability

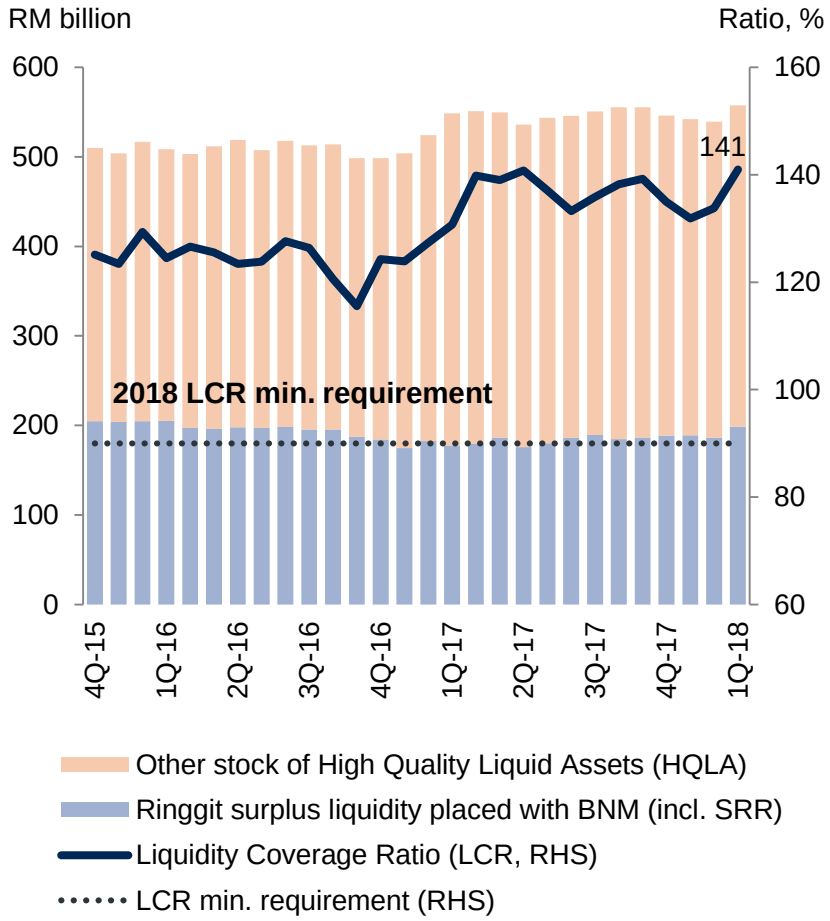


Source: Bank Negara Malaysia

Sufficient liquidity in the banking system to support intermediation

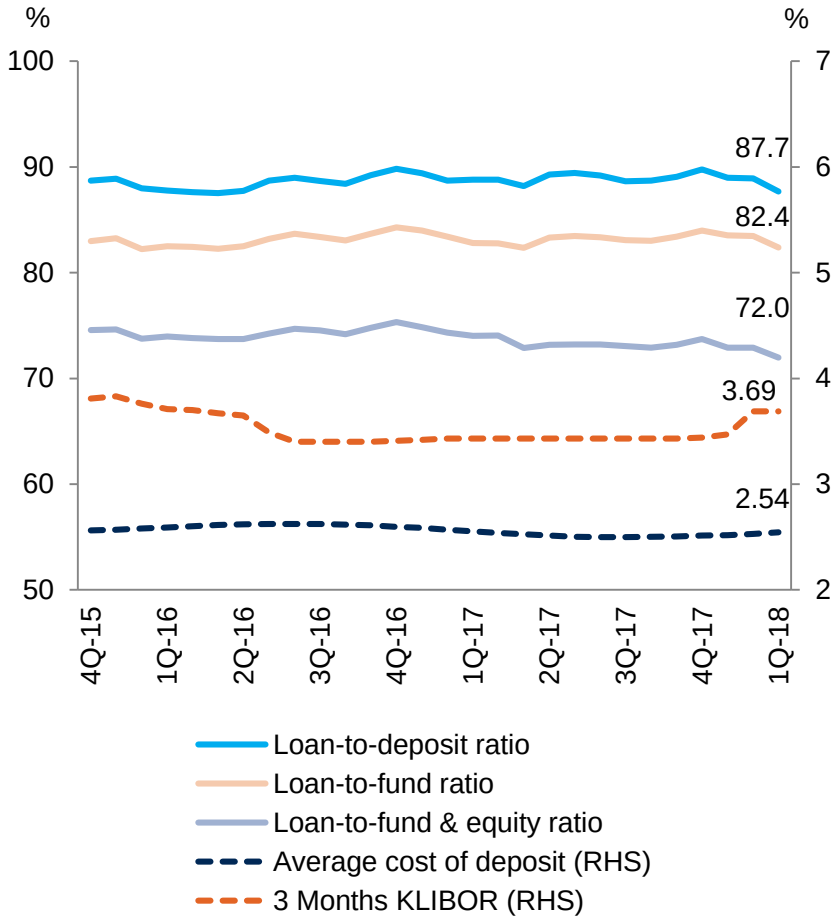
LCR well above transitional minimum regulatory requirement

Liquidity coverage ratio and available liquid assets



Average cost of deposits and KLIBOR increased as anticipated following OPR hike

Funding structure and cost of funds

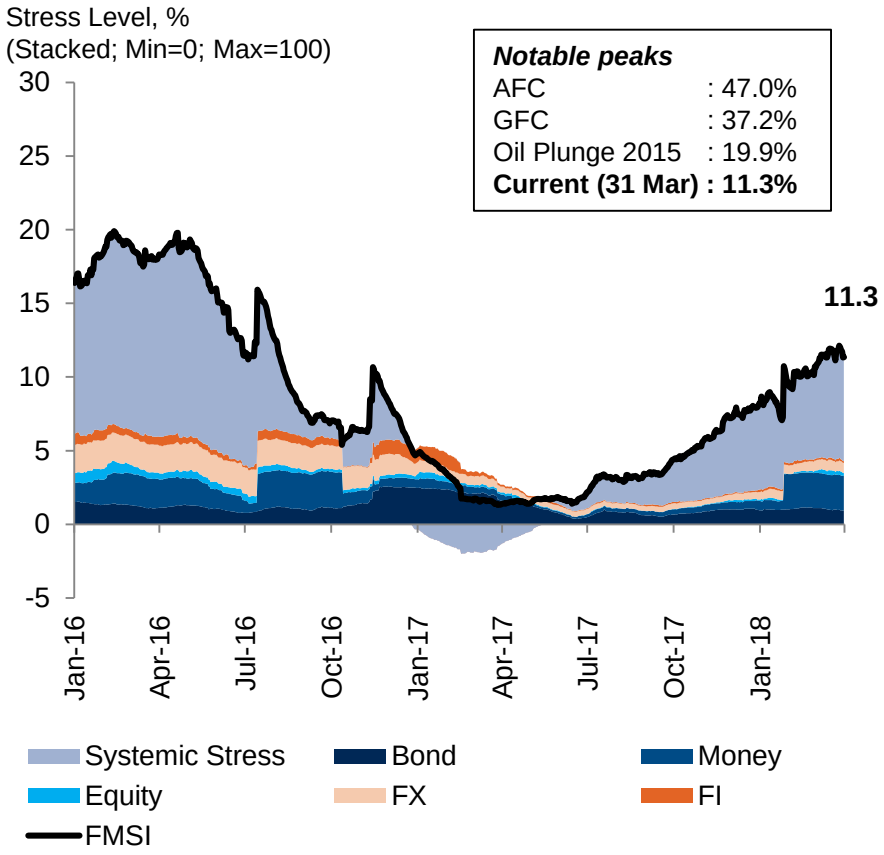


Source: Bank Negara Malaysia

Domestic financial markets remained orderly despite higher volatility

Overall financial market stress continued to trend upwards, driven primarily by external developments

Financial Market Stress Index (FMSI)



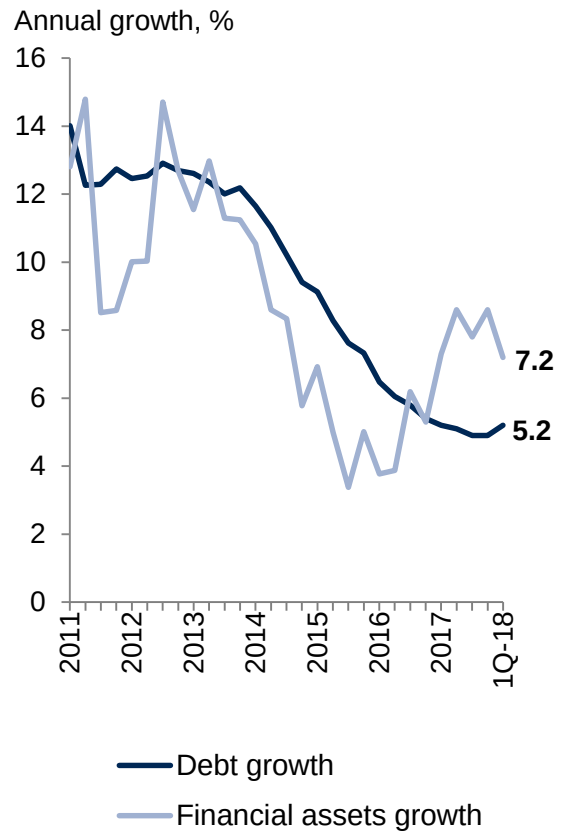
- **Higher overall volatility attributed to:**
  - **Global equity market correction in February**
  - **Interest rate hike by the US Federal Reserve in March**
  - **Concerns over a global trade war**

Source: Bank Negara Malaysia, Bloomberg, Reuters

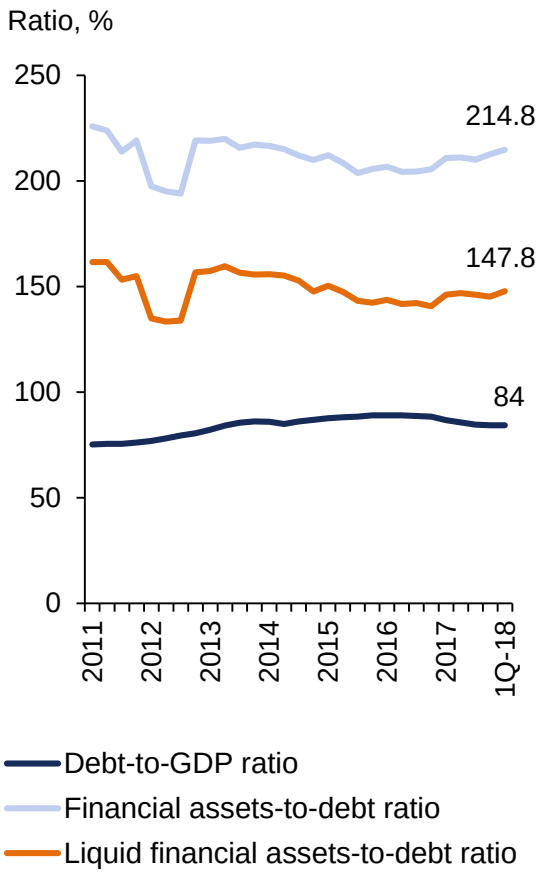
Sustained debt servicing capacity of households

Growth in household financial assets continued to outpace debt …

Household Debts & Financial Assets

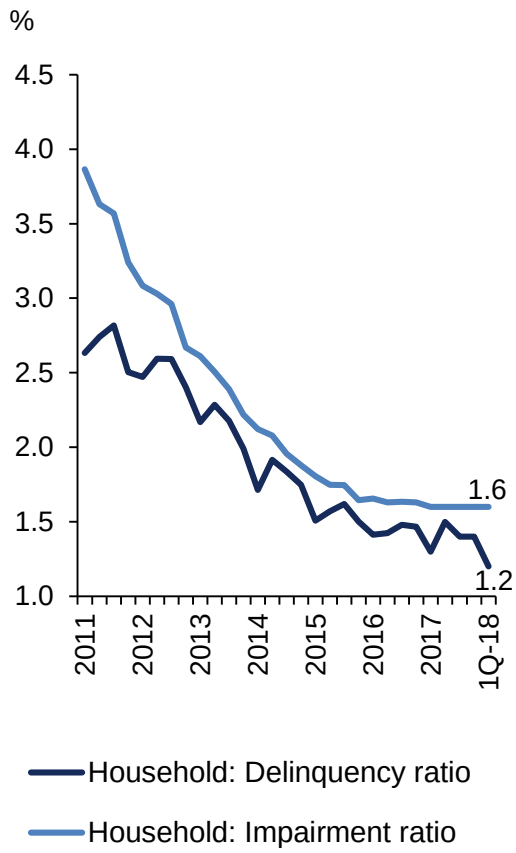


Household Sector: Key Ratios



Asset quality of household loans remained sound

Gross Impaired and Delinquent Loans

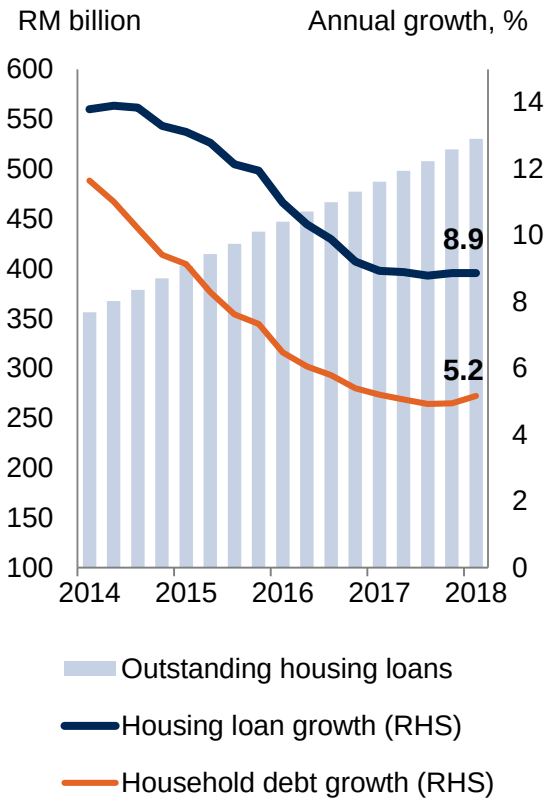


Source: Bank Negara Malaysia

Borrowers including first-time home buyers continued to have access to home financing

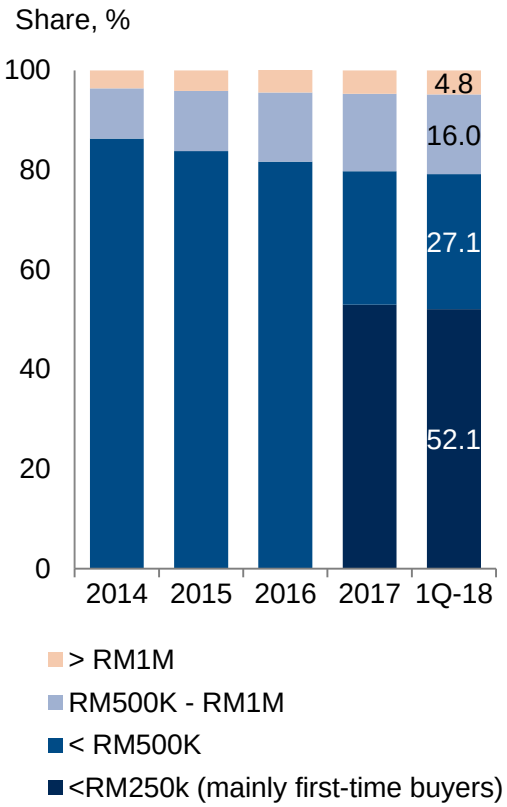
Growth of housing loans was sustained

Outstanding Housing Loans



71% of outstanding loans are to first-time buyers of houses priced <RM500K

Composition of Borrowers by House Price



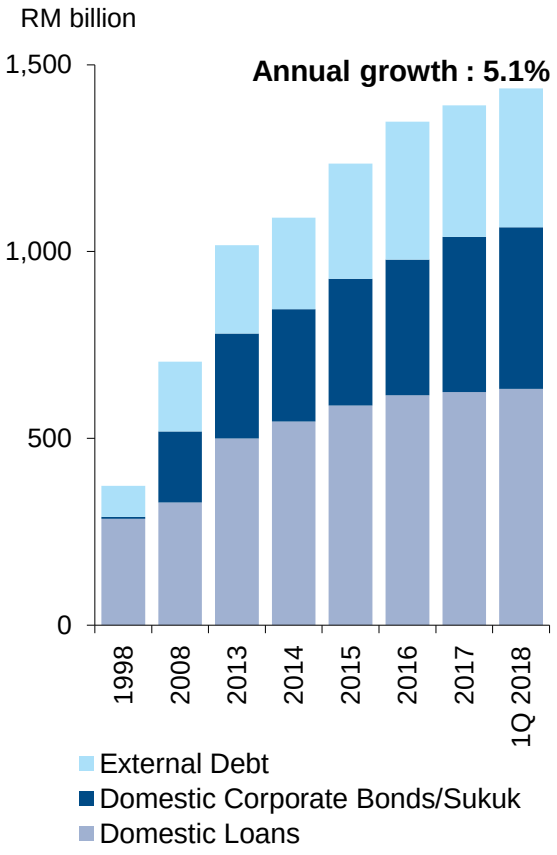
- **Housing loan approval rates at 72%**
- **Financing for speculative house purchases remained muted**

Source: Bank Negara Malaysia

Businesses, including SMEs continued to have access to financing

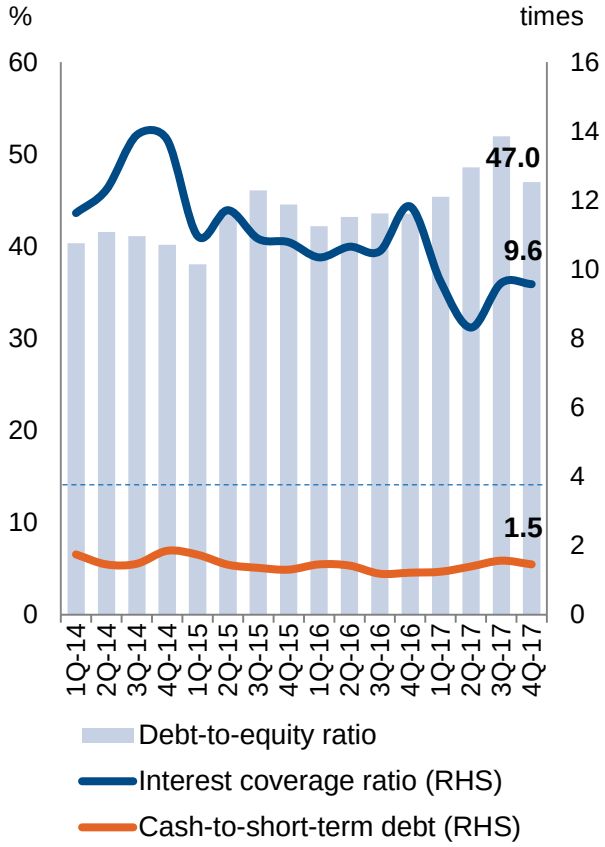
Business borrowings were driven by increased issuances in the corporate bond/sukuk markets

Domestic and External Debt



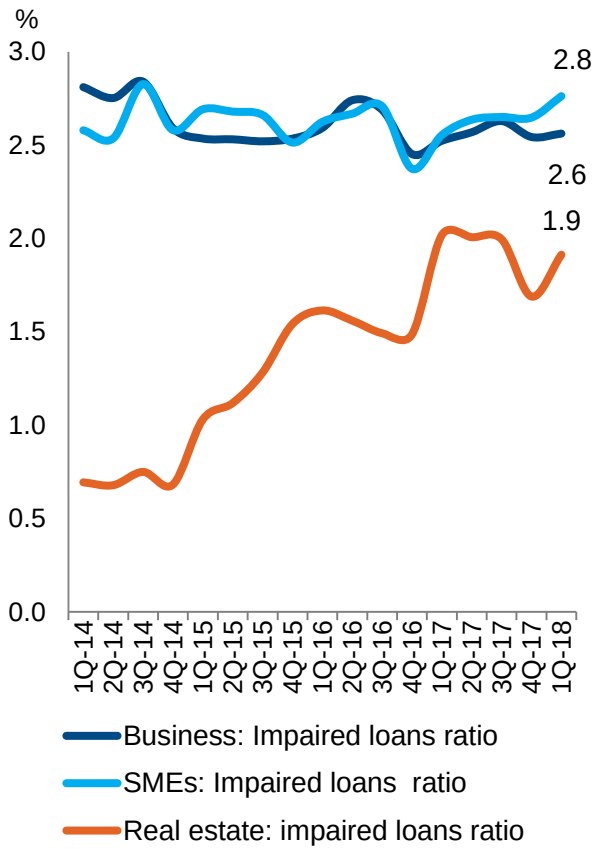
Overall debt servicing capacity sustained, with lower leverage

Leverage, Debt Servicing Capacity and Liquidity Indicators



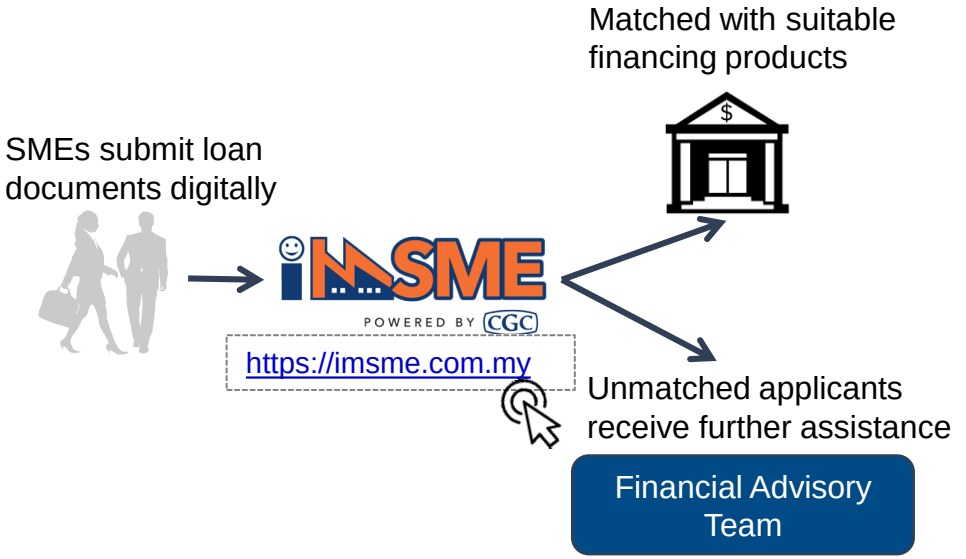
Impairments remained low, despite uptick in real estate sector

Gross Impaired Loans



Source: Bank Negara Malaysia

imSME has helped reduce search costs for businesses



Allow SMEs to apply for financing from multiple banks simultaneously, via online platform.

Matches SMEs to suitable financing products according to their business profile, credit score and financing needs.

The Financial Advisory Team conducts diagnostics and provides targeted assistance to improve eligibility of SMEs for financing.

Key Achievements

Offering

28 financing products

From 15 institutions, including conventional and Islamic products

Successfully matched

236 applicants

Successfully matched to offered financial services and products

Approved

RM2.4m

Worth of financing applications

Reduced

3 hours

Of travel and waiting time at bank branches

Saved

10 days

In preparing loan documentation

Key Highlights on Box and Feature Articles

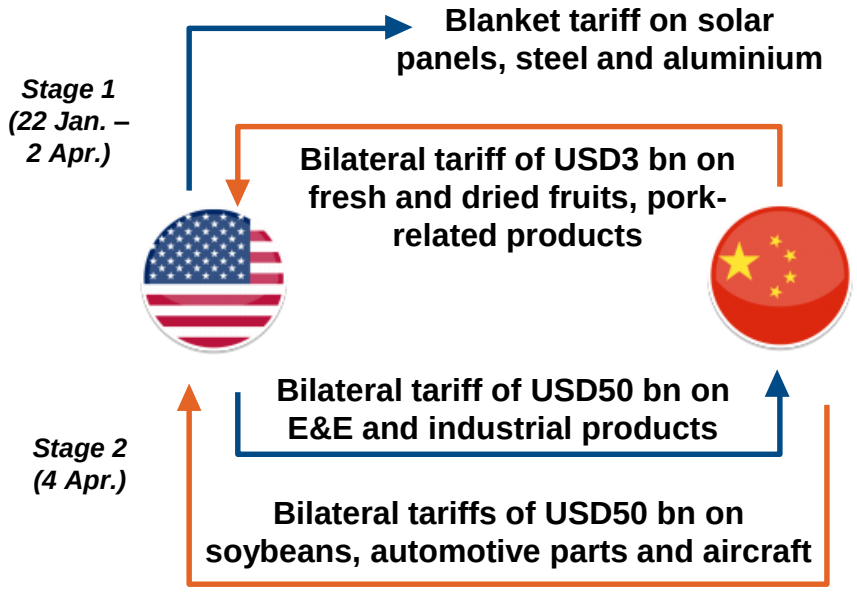
- Trade Disputes: Implications for Trade and Investments
- Global Slack as a Determinant of Inflation
- Improving Quality and Transparency of Services to Financial Consumers

Trade Disputes:
Implications for Trade and Investments

In its current state, the proposed tariffs by the US and PR China has marginal adverse effects on global and regional growth

The emergence of trade disputes poses increased downside risks to global growth

Summary of Trade Actions Between the US and PR China

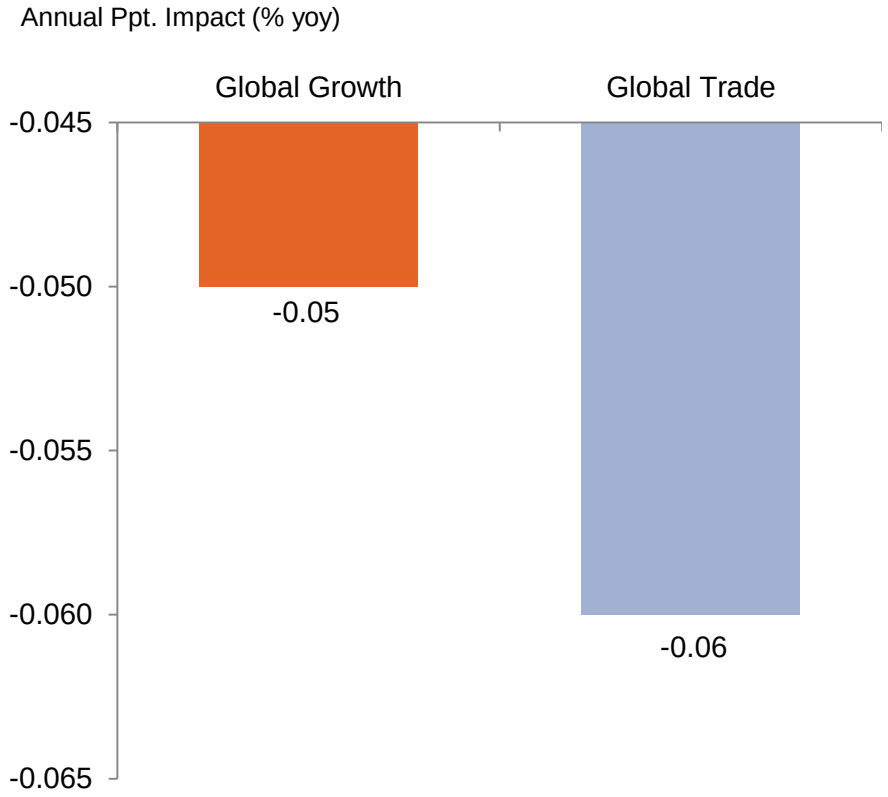


* Countries exempted from the steel and aluminium tariffs include Canada, Mexico, Korea and the euro area

Source: US Trade Representative Office, PR China Ministry of Commerce, Newsflows

However, the impact to global GDP is estimated to be minimal

Impact to Global Growth and Global Trade



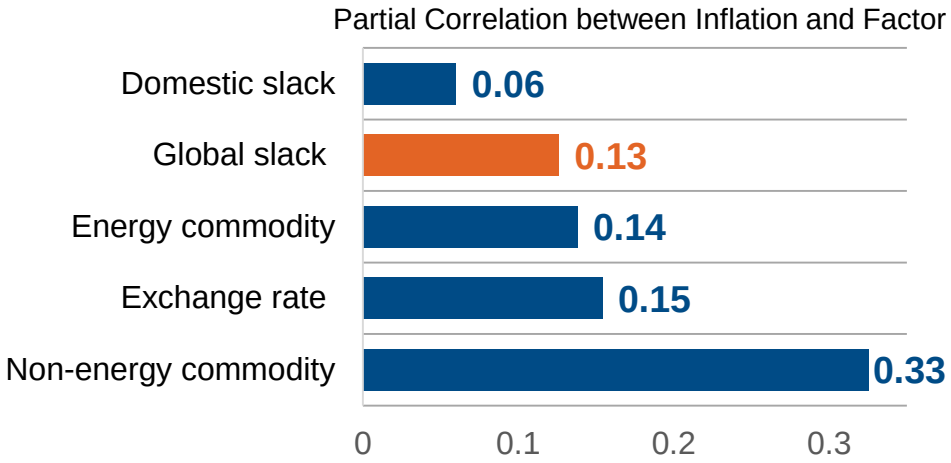
Source: Staff estimates

Global Slack as a Determinant of Inflation

With globalisation, global slack has been an important factor for inflation in Asia-Pacific economies

Global slack measures the extent to which economies utilise global resources, such as labour and capital

Global slack is an important factor for inflation in Asia-Pacific economies



With globalisation, global slack has a significant impact on inflation, due to :

1. Stronger competition from a more global marketplace
2. Division of production processes across different countries

Notes: Countries included in this study are China, Japan, Thailand, Vietnam, Singapore, Korea, the Philippines, Indonesia, Hong Kong, India, Malaysia, Australia and New Zealand.

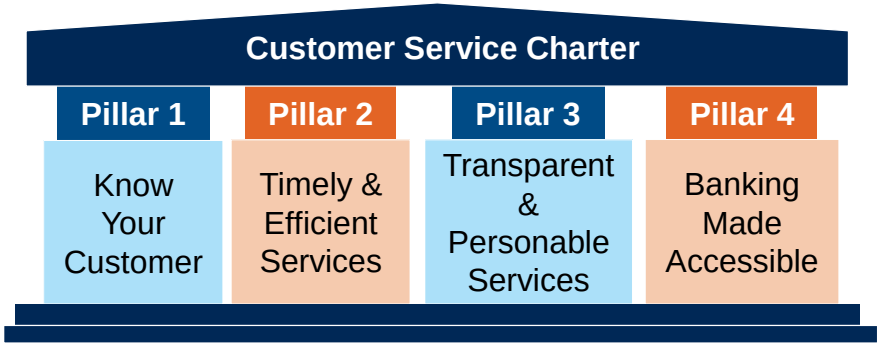
Source: Bank Negara Malaysia estimates

Improving Quality and Transparency of Services to Financial Consumers

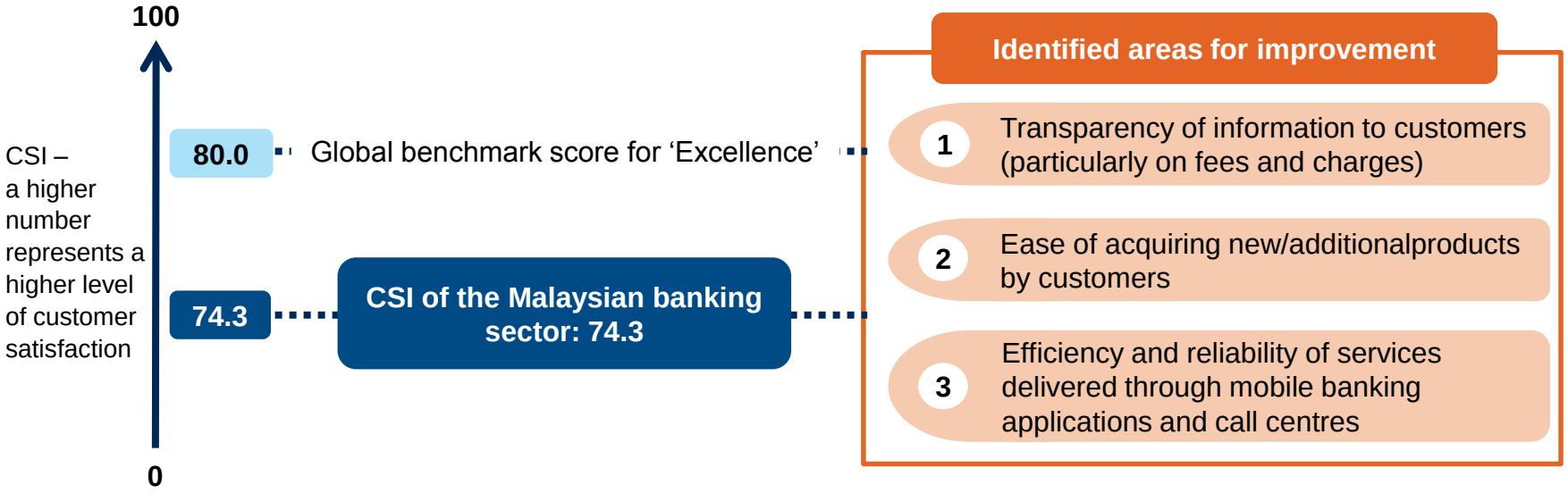
Two key initiatives to elevate customer experience with banking institutions

Enhanced Customer Service Charter

- **Published in September 2017**
- **Sets out banks' key commitments and service standards focusing on four main pillars**
- **Available on the websites of the banking associations and individual banks, as well as at individual banks' branches**



Customer Satisfaction Index (CSI) Survey



Implications for strategies to further enhance service quality



Re-defining role profiles and requirements for staff in customer-facing roles to provide appropriate emphasis on customer-centricity

- Drive and align recruitment activities, incentive structures and coordination across business functions
- Differentiated service delivery leveraging on new and distinct competencies



Providing a stronger focus on consistent standards across all customer touch points

- Clearly defined service standards and robust process to evaluate performance against the standards
- Accreditation of staff in customer-facing roles against globally benchmarked service quality and performance standards



Enabling technology-focused solutions to customer service

- Leverage more effectively on technology
- Re-think competitive strategies, with collaborations across industries, including fintech companies



Streamlining information and workflow processes to provide a seamless banking experience

- Continuously review existing arrangements to ensure smooth and efficient workflow, and timely access to high quality customer information across the bank

Bank Negara Malaysia remains steadfast in carrying out our mandate to ensure sustainable growth of the Malaysian economy

BNM will continue to work with all stakeholders to ensure the economy remains resilient



Promoting monetary and financial system stability and fostering a sound and progressive financial sector.



Advising the Government by closely monitoring economic conditions and provide advice on macroeconomic policies.

Strong economic fundamentals and policy frameworks will safeguard the economy's resilience and ensure growth remain on a sustainable growth path.

Q & A

The Malaysian economy grew by 5.4% in the first quarter

Real GDP (Annual change, %)	Share, % (2017)	2017		2018
		3Q	4Q	1Q
Domestic demand (excluding stocks)	**92.3**	**6.6**	**6.2**	**4.1**
Private Sector	**71.1**	**7.3**	**7.4**	**5.2**
Consumption	*53.7*	*7.2*	*7.0*	*6.9*
Investment	*17.4*	*7.9*	*9.2*	*0.5*
Public Sector	**21.0**	**4.0**	**3.4**	**-0.1**
Consumption	*13.0*	*3.9*	*6.8*	*0.4*
Investment	*8.0*	*4.1*	*-1.4*	*-1.0*
Net exports of goods and services	**7.7**	**2.0**	**2.3**	**62.4**
Exports	*72.8*	*11.8*	*6.7*	*3.7*
Imports	*65.1*	*13.3*	*7.3*	*-2.0*
Change in stocks (RM billion)	**0.0**	**-2.4**	**1.7**	**-5.0**
GDP (y-o-y)	**100[1]**	**6.2**	**5.9**	**5.4**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.8**	**1.0**	**1.4**

Note: [1] Numbers do not add up due to rounding
Source: Department of Statistics, Malaysia

Real GDP (Annual change, %)	Share, % (2017)	2017		2018
		3Q	4Q	1Q
Services	**54.5**	**6.5**	**6.2**	**6.5**
Manufacturing	**23.0**	**7.0**	**5.4**	**5.3**
Mining and Quarrying	**8.4**	**3.0***	**-0.3***	**0.1**
Agriculture	**8.2**	**4.1**	**10.7**	**2.8**
Construction	**4.6**	**6.1**	**5.9***	**4.9**
Real GDP	**100[2]**	**6.2**	**5.9**	**5.4**

Note: [2] Numbers do not add up due to rounding and exclusion of import duties component
* Revised
Source: Department of Statistics, Malaysia